

Precertification Session

Overawards & overpayments

Questions we will answer during this session:

What are overawards and overpayments?

How do you identify and correct Pell overpayments?

How do you identify and correct campus-based
overawards?

How do you identify and correct campus-based
overpayments?

How do you identify and correct Direct Loan and FFEL
overawards?

What are overawards and overpayments?



Overawards

Financial aid awards determined by the school, but not yet disbursed, that exceed a student's financial need.



Overpayments

Financial aid funds disbursed to a student that exceed the student's financial need.

Where Overpayments and Overawards Might Occur in Title IV Programs

Program	Overpayment = Funds disbursed to students in excess of need	Overaward = Funds awarded (but not yet disbursed) to students in excess of need
Federal Pell Grant Program	Yes	No
Federal Campus-Based Programs	Yes	Yes
Federal Direct Loan Program	No	Yes
FFEL Program	No	Yes

How do you identify and correct Pell Grant overpayments?



Checkpoint #1 Correcting Pell Grant Overpayments

- 1) A financial aid administrator at Varndell Academy miscalculates Kevin's Pell award and disburses the funds to him. He has no more disbursements this year. *Circle the true statement(s).*
 - (a) The school must collect the funds from Kevin.
 - (b) The school must repay the funds to their Pell account with ED using their own funds, if necessary.
 - (c) Kevin is ineligible for further Title IV until the matter is resolved.

- 2) Brandon includes erroneous information on his FAFSA, causing his EFC to be lower than it should. By the time the FAA at Varndell Academy discovers this, the funds have already been disbursed to Brandon. *Circle the true statement(s).*
 - (a) The school must collect the funds from Brandon.
 - (b) The school must repay the funds to their Pell account with ED using their own funds, if necessary.
 - (c) Brandon is ineligible for further Title IV until the matter is resolved.

Checkpoint #1 - continued

- 3) Varndell Academy decides to resolve Brandon's overpayment by repaying his debt to ED with school funds, and then collecting the money from Brandon as an institutional debt. *Circle the true statement(s).*
- (a) Brandon no longer owes an overpayment.
 - (b) Once the school has repaid ED, Brandon is eligible for further Title IV, regardless of whether he has, in turn, repaid the school.
 - (c) Brandon is not eligible for Title IV until he has repaid his institutional debt.
- 4) The FAA at Varndell is able to correct another student's overpayment by reducing her second disbursement. *Circle the true statement(s).*
- (a) The school must cease disbursing any Title IV to the student until the 2nd disbursement of Pell is made at the amount low enough to make up for the overpayment.
 - (b) The school may continue to disburse Title IV to the student.

How do you identify and correct campus-based overawards?

\$300 Campus-Based Overaward Threshold

- * Schools are allowed a \$300 overaward threshold.
- * Campus-based aid is the only Title IV with an overaward threshold.
- * The threshold counts *ONLY IF* an overaward occurs *after* campus-based aid has been awarded.
- * The threshold does not allow a school to deliberately award campus-based aid in excess of a student's financial need.

Correcting Campus-Based Overawards

- Step 1:** Begin with unsubsidized Stafford loans, Direct unsubsidized loans, and/or PLUS loans.
- Step 2:** Look at subsidized Stafford loans and Direct subsidized loans.
- Step 3:** Recalculate need and adjust other aid over which the school has control (like campus-based).



Checkpoint #2 - Correcting Campus-Based Overawards

James attends Hilltop College. His need is \$8,900. The school has awarded him the following package:

<i>Pell Grant</i>	<i>\$2,700</i>
<i>FSEOG</i>	<i>\$3,000</i>
<i>Federal Perkins Loan</i>	<i>\$2,000</i>
<i>Federal Work Study</i>	<i>\$1,200</i>
<i>TOTAL</i>	<i>\$8,900</i>

After the school packages his aid, James receives a \$900 scholarship from a youth organization.

- 1) Has James been overawarded? _____
- 2) How much is the overaward (if it exists)? _____
- 3) Repackage James's aid to correct the overaward:

Pell Grant	\$ _____
FSEOG	\$ _____
Federal Perkins Loan	\$ _____
Federal Work Study	\$ _____
Youth Scholarship	\$ _____
TOTAL	\$ _____



Checkpoint #3 - More Campus-Based Overawards

Marilyn's need at a local community college is \$4,700. Her award package consists of the following:

<i>Pell Grant</i>	<i>\$2,300</i>
<i>FSEOG</i>	<i>\$2,000</i>
<i>TOTAL</i>	<i>\$4,300</i>

- 1) What if Marilyn receives a merit scholarship of \$450. What must the school do? _____
- 2) What if her scholarship was for \$700. What must the school do? _____
- 3) What if the scholarship was for \$1,200. What must the school do? _____
- 4) What should the school do if Marilyn takes a job after class at a health spa that is owned by a family friend? _____
- 5) Marilyn asks for a Federal Work Study job to make up her remaining need of \$400. After she's been on the job for two weeks, she receives a \$500 American Legion Award. What must the school do?

It depends. If she has earned _____ or more, then the \$500 scholarship creates an overaward beyond the \$300 threshold. The school must _____.

If she has earned _____ on her FWS job, the overaward is at or below \$300. This means that the school _____.

How do you identify and correct Direct Loan and FFEL overawards?

Procedures for Direct Loan Adjustments

Disbursement Adjustments¹

A disbursement adjustment is a return of a portion of a disbursement within 120 days of the disbursement date. Events that would create an *disbursement adjustment* include:

- A disbursement amount was entered incorrectly and must be corrected.
- A reduction in the student's eligibility results in a downward adjustment to a disbursement.
(Note: Schools are not required to make an adjustment if the loan has been disbursed.)
- A refund is due under the Title IV refund policy that is less than the full amount of the disbursement.

Other than to correct a data error, if an originating school adjusts a disbursement downward, it returns the net adjustment amount (the amount received back from the borrower) to its "federal" account. Excess funds must be returned to ED. Standard origination and Option 1 schools return the net adjustment amount to ED. Option 2 schools may use the funds to disburse to another eligible borrower. All schools send disbursement adjustment records reflecting an adjustment to ED. **The borrower is responsible for loan fees and accrued interest only on the total adjusted amount of the disbursement. If a borrower returns a portion of a disbursement directly to ED within 120 days of the disbursement date, the borrower must include with the payment a letter that explains that the disbursement should be adjusted. If the borrower includes this letter, the borrower will be responsible only for the loan fees and accrued interest on the adjusted amount of the disbursement. If no letter is included, the borrower will be responsible for the loan fees and accrued interest on the entire disbursement amount.**

¹ Within 120 days of the disbursement date.

Procedures for Direct Loan Cancellations and Payments on a Loan Balance

Disbursement Cancellations¹

A disbursement cancellation is the return of the total disbursement amount received by the borrower, by either the school or the borrower, within 120 days of the disbursement date. Events that would create a *disbursement cancellation* include:

- The school determines that the disbursement should not have been made.
- The borrower requests a cancellation.
- The borrower returns to the school all funds that have been disbursed.
- There is a refund due under the Title IV refund policy that would result in a refund of the total amount disbursed.

An Option 2 school returns cancelled funds to its "federal" account when the school determines or has knowledge that an event listed above has happened. Excess funds are to be returned to ED. Standard and origination and Option 1 schools return the net cancellation amount to ED. Option 2 schools may use the funds to disburse to another eligible borrower. All schools send disbursement and cancellation records to the Direct Loan Servicing Center. **ED will cancel a borrower's disbursement if the borrower or the school returns the full amount of a disbursement to ED within 120 days of the disbursement date. The borrower is not responsible for loan fees and accrued interest for a cancelled disbursement.**

Payment of a Loan Balance²

A partial or total disbursement returned for any reason, by either the school or the borrower, 121 days or more after the date of the disbursement does not reduce the loan amount borrowed. Rather, the payment is applied to the borrower's account just like any other regular payment. When making a payment, the school or borrower must send a check to ED with the appropriate information needed to apply the amount to the borrower's account. ED, upon receiving the check, applies the payment amount to late charges, collection fees, and outstanding interest before crediting it to the principal balance. **The borrower is responsible for loan fees and accrued interest on the original amount of the loan.**

¹ Within 120 days of the disbursement date.

² After the 120-days cancellation/adjustment period.



SCENARIOS

Work in your groups to complete the following scenarios. Assume the COA for each student attending Jackson College is \$4,000 and that his or her EFC is \$0.

1

Joshua plans to attend Jackson College. His subsidized loan for \$4,000 is certified, but the loan proceeds have not yet been received by the school. The aid administrator learns that Joshua has just been awarded a full \$4,000 scholarship from a foundation. Is this an overaward or an overpayment?

What does the school need to do?

2

Arlene has an aid package for Jackson College as follows:

Pell Grant	\$2,000
FSEOG	\$1,000
<u>Subsidized Loan</u>	<u>\$1,000</u>
TOTAL	\$4,000

The subsidized loan proceeds have been received by the school, but not yet delivered to Arlene, when she receives a \$1,500 civic-club scholarship. Is this an overaward or an overpayment?

What will Arlene's new financial aid package look like?

3

Bruce has an aid package to attend Jackson College as follows:

Pell Grant	\$1,000
FSEOG	\$1,000
FWS	\$1,000
Subsidized Stafford	
<u>Loan</u>	<u>\$1,000</u>
TOTAL	\$4,000

The loan proceeds have been received by the school. The first installment of \$500 has been delivered to Bruce when he receives a \$700 scholarship.

Is this an overaward or an overpayment?

What will Bruce's new financial aid package look like?



Resources

- ★ *Federal Student Financial Aid Handbook:*
Federal Pell Grant Program Reference
Federal Campus-Based Programs Reference
Direct Loan and FFEL Programs Reference

Answer



Key

Checkpoint #1 – Pell Grant Overpayments

- 1) All three statements are true.
- 2) A and C are true, but B is not.
- 3) A and B are true.
- 4) B is true.

Checkpoint #2 – Correcting Campus-Based Overawards

- 1) Yes, it creates an overaward.
- 2) \$900.
- 3)

Pell Grant	\$2,700
FSEOG	\$3,000
Perkins	\$1,100
FWS	\$1,200
Scholarship	\$ 900
TOTAL	\$8,900

Checkpoint #3 – More Campus-Based Overawards

- 1) Nothing, since the scholarship only creates a \$50 overaward.
- 2) Nothing, since the scholarship only creates a \$300 overaward.
- 3) The school must reduce the FSEOG award by \$800, since the scholarship now creates an award beyond the threshold (\$800).
- 4) The job is non-need based, so the school does not have to do anything.
- 5) If she has earned \$201 or more, then the \$500 scholarship creates an overaward beyond the \$300 threshold. The school must reduce her FSEOG.

If she has earned \$200 or less on her FWS job, the overaward is at or below \$300. This means the school does not have to take any action.

Scenarios

- 1) Overaward. The school must cancel the subsidized loan.
- 2) Overaward. The school must cancel and return the loan, and reduce Arlene's FSEOG by \$500.
- 3) Overaward. The school must cancel Bruce's second loan disbursement, and reduce his campus-based award (either the FSEOG, the FWS, or a combination) by \$200.